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UNCLAS SECTION 01 OF 02 ROME 000017

SIPDIS

DEPT FOR EUR/WE, EUR/ERA, EB/IFB/OMA
LABOR FOR ILAB
PARIS ALSO FOR USOECD
TREAS FOR OASIA HARLOW, JONES
STATE PASS CEA
STATE PASS FRB FOR GUST
USDOC 6800/ITA/TD/OTEA/TISD/HSCHULTZ AND
4212/ITA/MAC/OEURA/CPD/DDEFALCO

E.O. 12958: N/A

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TAGS: [ECON](#) [EFIN](#) [ETRD](#) [EFIN](#) [ETRD](#) [IT](#) [ITECON](#)
SUBJECT: ITALIAN PARLIAMENT APPROVES 2002 BUDGET

REF: (A) ROME 6001; (B) MILAN 769; (C) MILAN 770;
(D) ROME 6613, (E) ROME 5358

[1](#)1. SUMMARY: THE SENATE APPROVED ITALY'S 2002 BUDGET ON DECEMBER 22, WHICH HAD BEEN PREVIOUSLY PASSED BY THE CHAMBER OF DEPUTIES. THE E17 BILLION PACKAGE, EQUAL TO 1.3 PERCENT OF GDP, PROPOSES TO REDUCE THE DEFICIT/GDP RATIO TO 0.5 PERCENT, IN LINE WITH THE STABILITY PACT. THE 2002 BUDGET GRANTS NEGOTIATING AUTHORITY FOR THE EXECUTIVE BRANCH TO DRAFT TAX AND PENSION REFORM, AND REFORM OF BANK FOUNDATIONS (REF D). IT ALSO RAISES MONTHLY MINIMUM PENSIONS (FOR THOSE OVER 70) TO ONE MILLION LIRE (\$500); RAISES PERSONAL INCOME TAX DEDUCTIONS FOR CHILDREN, AND FOR HOUSE REMODELING UP TO END-2002; ABOLISHES SOME MINOR TAXES; PROVIDES FUNDS FOR RENEWAL OF CERTAIN LABOR CONTRACTS, AND FOR EDUCATION; AUTHORIZES PRIVATIZATION OF CERTAIN STATE AGENCIES AND MUNICIPAL UTILITIES; AND PARDONS BUILDERS OF ILLEGAL BUILDINGS ON STATE PROPERTY. END-SUMMARY

2002 BUDGET

[2](#)2. BEATING THE DECEMBER 31 DEADLINE, THE SENATE APPROVED ON DECEMBER 22 ITALY'S 2002 BUDGET. THE 2002 BUDGET TOTALS E17 BILLION (1.3 PERCENT OF GDP). THIS INCLUDES AN E7.9 BILLION (0.6 PERCENT OF GDP) ECONOMIC STIMULUS PACKAGE AND AN E9.1 BILLION REDUCTION OF THE DEFICIT/GDP RATIO FROM 1.7 TO 0.5 PERCENT AT THE END OF 2002. THE
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E7.9 BILLION STIMULUS PACKAGE INCLUDES E5.2 BILLION IN SPENDING INCREASES AND E2.7 BILLION LIRE IN LOWER TAX REVENUES.

[3](#)3. THE BUDGET INCLUDES E4.6 BILLION IN SPENDING CUTS, MOSTLY IN THE HEALTH SECTOR (REF E), AND E4.1 BILLION IN NEW REVENUES. THE NEW INCOME IS TO BE GENERATED FROM TAXES PAID BY COMPANIES MOVING FROM THE UNDERGROUND ECONOMY INTO THE FORMAL ONE, FROM THE AMNESTY GIVEN FOR THE REPATRIATION OF CAPITAL AND FROM CERTAIN ACCOUNTING MEASURES. ANOTHER E8.3 BILLION IS TO BE RAISED FROM THE SALE OF GOI REAL ESTATE (E7.7 BILLION) AND FROM LOTTERY AND GAME PROCEEDS (E516.5 MILLION).

[4](#)4. MAIN ELEMENTS OF THE 2002 BUDGET

[A](#)A. MINIMUM PENSIONS: MINIMUM MONTHLY PENSIONS WILL BE RAISED TO E516 FOR THE 2.2 MILLION PENSIONERS WHO ARE OLDER THAN 70 YEARS AND HAVE AN OVERALL INCOME OF NO MORE THAN E6,700, EXCLUDING THEIR HOUSE.

[B](#)B. PERSONAL INCOME TAX DEDUCTIONS: TAX DEDUCTIONS FOR CHILDREN WILL INCREASE PROGRESSIVELY WITH THE INCOME.

[C](#)C. HOME REMODELING: TAX DEDUCTIONS FOR HOUSE REMODELING WILL BE EXTENDED TO DECEMBER 31, 2002.

[D](#)D. ABOLITION OF SOME MINOR TAXES.

[E](#)E. LABOR CONTRACTS, EDUCATION, AND KINDERGARTENS: E1.3 BILLION IS INCLUDED FOR LABOR CONTRACT RENEWALS IN THE
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PUBLIC SECTOR DURING 2002, AND E2.4 BILLION IN 2003 AND [2](#)2004. E1.1 BILLION IS INCLUDED FOR TEACHERS' SALARIES THROUGH 2004. E310 MILLION IS INCLUDED FOR KINDERGARTENS. PUBLIC OFFICES WILL BE ALLOWED TO CREATE KINDERGARTENS FOR THE CHILDREN OF THEIR WORKERS;

[F](#)F. PRIVATIZATION OF STATE AGENCIES AND MINICIPAL UTILITIES: THE GOI WILL INDICATE CERTAIN PUBLIC ENTITIES TO TRANSFORM INTO JOINT STOCK COMPANIES OR FOUNDATIONS.

THIS MEASURE MAY BE APPLIED TO HOSPITALS, CLINICS AND MEDICAL RESEARCH CENTERS. THE 2002 BUDGET ALSO CONTAINS MEASURES INTENDED TO FOSTER THE PRIVATIZATION OF MUNICIPAL UTILITIES;

1G. PARDON FOR ILLEGAL BUILDING ON PUBLIC PROPERTY: BUILDINGS CONSTRUCTED ILLEGALLY ON PUBLIC PROPERTY BEFORE 1990 WERE MADE LEGAL.

1H. BANKING FOUNDATIONS: THE REFORM IS COVERED IN DETAIL

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ACTION EUR-00

INFO	LOG-00	AID-00	CEA-01	CIAE-00	CTME-00	DODE-00	EB-00
	EXIM-01	E-00	UTED-00	FOE-00	VC-00	FRB-00	H-01
	TEDE-00	INR-00	ITC-01	LAB-01	AC-01	NSAE-00	OMB-01
	OPIC-01	ACE-00	SP-00	SSO-00	STR-00	TRSE-00	USIE-00
	FMP-00	G-00	SAS-00	/008W			

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P 021515Z JAN 02
FM AMEMBASSY ROME
TO DEPT OF TREASURY WASHDC PRIORITY
SECSTATE WASHDC 1478
INFO USDOC WASHDC
EU MEMBER STATES COLLECTIVE
USEU BRUSSELS 2492
AMCONSUL MILAN
AMCONSUL FLORENCE
AMCONSUL NAPLES
AMCONSUL FRANKFURT

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IN REF D.

1I. TAX AND PENSION REFORM: THE GOI IS AUTHORIZED TO START WORK ON DRAFT REFORMS.

COMMENT

15. BERLUSCONI'S ECONOMIC PROGRAM WAS ADVANCED BY THE ENACTMENT OF THE 2002 BUDGET. DESPITE THE UNCERTAIN ECONOMIC OUTLOOK, THE GOI WAS ABLE TO GAIN APPROVAL OF A STIMULUS PACKAGE AND AUTHORIZATION TO DRAFT REFORMS OF THE TAX AND PENSION SYSTEMS. ONLY THE REFORM OF THE BANKING FOUNDATIONS (REF D) CREATED SOME CONTROVERSY, TRIGGERING TOUGH OPPOSITION FROM THE FOUNDATIONS THEMSELVES AND CERTAIN CENTER-LEFT POLITICIANS. THIS AND THE PARDON FOR ILLEGAL BUILDERS ON STATE PROPERTY ARE EXAMPLES OF HOW THE BUDGET LAW CAN BE USED TO GAIN QUICK PASSAGE OF CONTROVERSIAL LAWS WITHOUT A SERIOUS DEBATE IN PARLIAMENT. THE PARDON FOR ILLEGAL BUILDERS IS A TRADITIONAL TYPE OF POLITICAL BENEFIT FOR VOTERS IN SOUTHERN ITALY, WHERE SUCH ILLEGAL CONSTRUCTION IS COMMON. BERLUSCONI'S COALITION, AND THE CDU/CCD IN PARTICULAR, IS VERY STRONG IN SOUTHERN ITALY. END COMMENT
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